

The co-operative way  
is a middle way -  
a better way.



**David Griffiths**  
Secretary  
Co-operative Energy Ltd  
Correspondence to-  
Registered Office :  
71 Franciscan Avenue  
Frankston, Victoria , Australia  
3199  
Tel:A/H 775 5901

Site Office  
11 North Wharf Road  
Docklands  
Melbourne  
Victoria  
Australia 3000  
Tel: B/H 629 3277  
A/H: Answering Machine  
Fax: 629 5523

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What is an  
electric  
co-operative?

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An electric co-operative is created when electric consumers join together to provide their own electricity service:

- Buying and owning, as a full or part owner, a distribution company e.g., United Energy.
- Purchasing power on behalf of members from distribution companies or power generators.
- Generating power and selling this to distribution companies or directly to electric consumers.

### **What is the philosophy of co-operation?**

The philosophy of co-operation is people working together and helping each other. A co-operative is owned and controlled by its members. Its purpose is to serve and benefit its members. There are six principles of co-operation - open and voluntary membership, democratic control, limited interest on shares, return of surplus to members, co-operative education and co-operation among co-operatives. These characteristics make co-operatives distinct from other forms of business. The co-operative way is a middle way between private and public ownership.

### **Why form an electric co-operative?**

Individuals and their communities establish co-operatives to increase their income and enhance their way of living. Since the 19th C Victorians have chosen the co-operative way to establish credit unions, dispensaries, farmer co-operatives, housing societies and medical institutes.

Electric co-operatives were formed in the U.S.A. when private utilities refused to supply electricity to rural areas because it was unprofitable. In 1936, for instance, 90% of all farms in the U.S.A. were without electricity. The only way that rural communities could secure electricity was to provide their own - through electric co-operatives.

In rural Victoria earlier this century co-operative butter factories

provided power to their local communities. Electricity supply was decentralized with up to 149 co-operative, private and municipal providers. In 1913 the franchise for electricity supply in Boort was given to the Boort Co-operative Butter Factory and Inc. Co. and in 1915 the Heyfield and District Co-operative Butter Factory and Electric Lighting Co Ltd established an electric utility. With the establishment of the State Electricity Commission of Victoria (SECV) in 1918, however, these providers were gradually absorbed.

### **What about Victoria today?**

The Government's commitment to privatisation of the electric industry is a co-operative opportunity and the reason why electric co-operatives are relevant today. The Government is separating the generation of power, its distribution and retailing - each creating a co-operative option for consumers. The Government has said that it wishes to empower consumers through a competitive market - arguing that it is selling the SEC to deliver lower electricity prices and better services by giving households and business the freedom from whom they buy their electricity i.e., empowering consumers to shop around to get the best deal. In practice, this is impractical for individual householders and small business. Only co-operatives would make this practical. Through volume buying of a purchasing co-operative, for example, individual householders and small business could have this choice. The more competitive the market, the more competitive electric co-operatives.

An electric utility owned by electric consumers will invariably benefit its members and their communities because the co-operative return its profits to members either as a rebate or improved services. A co-operative's income is returned to its members and their communities - as determined by the members. Electric co-operatives will provide better services than private utilities because its emphasis is on serving the consumer-members - rather than generating profits from consumers for Australian and/or foreign investors. Victoria's distribution company Powercor, in



preparation for its privatisation, has already closed or downsized offices in rural Victoria.

A co-operative exists to provide a service to its member-owners - after it has covered its costs, met its financial obligations and set aside funds in reserve for future contingencies. Electric co-operatives can make significant contributions to the development of their communities. Because co-operatives are committed to their members and their communities they often lead industry in quality e.g., in searching for better varieties and handling methods, in establishing uniform grades and standards, in using quality testing laboratories and in identifying quality by use of brands and labels.

#### **How do you own a co-operative in Victoria?**

All co-operatives in Victoria have a shareholding. The shares are of fixed and constant value. The Rules of the co-operative establish the minimum number of shares that must be subscribed to by each member e.g., one \$10 share. The share capital can be fully paid-up or comprise paid and unpaid capital. A minimum of 10% of the required share capital must be paid-up as a condition of membership. In the U.S.A. legislation differs and there are shareholding and non-shareholding co-operatives. The electric co-operatives, for example, do not have a shareholding. Instead, electric consumers pay a membership fee - usually between \$5 and \$10.

#### **Is foreign ownership possible?**

Foreign ownership and control of a co-operative is not possible. The shares of a co-operative are not tradable on the stock exchange. The co-operative option guarantees continuing Australian ownership and provides an opportunity for electric consumers and workers to own their own utility. This ownership is real. It is based on one vote per member irrespective of their shareholding and power usage. If individual electric consumers and workers own shares in a private utility, the number of shares they own determine

their voting power. The minority of shareholders who had the wealth to purchase and own the majority of shares control the utility. In a co-operative a member could own up to 20% of the shares and only have one vote.

The Victorian Government has made it clear that it believes that foreign ownership is inevitable because Australia's financial markets are not big enough to absorb the sale of the SEC. The Government argues that Victoria already has significant overseas ownership in aluminum, motor vehicle, chemical, food processing, electronics, media and petroleum industries. The Government has said that it prefers any possible overseas buyers to take on an Australian company as their partner or to float part of their interest on the stock exchange so that Australian companies and individuals can invest directly. The Government has also expressed a desire for employees to be given the opportunity to own shares. Private Australian companies are always vulnerable to foreign ownership - now or eventually. It is only co-operative ownership which excludes foreign investors.

#### **How are co-operatives democratic?**

Co-operatives have an open membership. Co-operatives are politically neutral and bipartisan. The Rules will define the actual membership entitlements e.g., a dairy farmer and an electric consumer. For an electric co-operative it will be electric consumers. Everyone who could or does receive electricity from the co-operative can be a member. You become a member by applying for membership, agreeing with the purpose and Rules of the co-operative and paying the minimum shareholding requirements.

Co-operative democracy is dependent on member responsibility - the bond between members and their co-operative. This responsibility starts with the establishment of the co-operative. Members are responsible for informing themselves about and understanding their co-operative - its purpose, objectives, benefits, limitations, operations, finances and long-term plans.



There is one vote per member irrespective of their shareholding. The Rules state how the co-operative will organize itself as a co-operative. The Rules cover such matters as the name of the co-operative, the purpose of the co-operative, grounds and procedures for admitting and excluding members, how directors and officers are elected and their accountability and the distribution of any surplus. They must be consistent with State co-operative legislation and regulations.

The members elect the directors at the Annual General Meetings based on one vote per member. It is not possible for a minority of members to control a majority of the votes through their shareholding. The U.S.A's 1000 plus electric co-operatives have adhered to the principle of one vote per member since the 1940's. Some co-operative companies in Victoria, which are not registered under the Co-operation Act 1981, however, have limited proportional voting.

Members have a responsibility to attend all meetings for members and encourage other members to attend vote on issues presented for decision. They have a responsibility to discuss problems, express opinions and generate ideas. Members should also accept the responsibility of serving on committees.

#### **How do co-operatives finance their activities?**

All co-operatives require capital to conduct their business activities. Similar to other business enterprises, a co-operative's source of capital is internal and external. Co-operative philosophy and practice emphasizes the importance of membership capital and the critical importance of members making a financial contribution towards their co-operative. A co-operative without a significant membership capital is inconsistent with co-operative philosophy and principles. Usually, the initial capital required is based on the capitalization needs of the co-operative and it should be large enough for the co-operative to undertake its proposed activities.

The financial liability of members is limited to any unpaid capital and any fees and charges incurred in their dealings with the co-operative.

While electric co-operatives in the U.S.A. do not have a shareholding, membership equity has gradually increased since the 1940s. Members were only required to pay a joining fee of between \$5 - 10. It was recognized that the enormous capital investments necessary for electric co-operatives could not possibly be provided by their consumer-members. When originally established, however, there was virtually no membership equity in the U.S.A. electric co-operatives. There was 100% financing from the Government and co-operatives were required to build up their equity over time. In 1991 equity as a % of assets was 40%. The primary source of capital for the electric co-operatives in recent years has been internally generated funds - in 1991 57% of the \$U.S. 1.9 billion in plant added. A co-operative buying a distribution company would require substantial loans funds and/or partners. In contrast, the capital requirements of a purchasing co-operative would be low.

#### **How are electric co-operatives different from private utilities?**

The co-operative is member-driven rather than capital driven. The overriding value of the co-operative to its consumer owners is services - rather than profits. Limiting the return on equity capital is a mechanism to support distribution of benefits according to use. This encourages management to focus on servicing members. Victoria's Co-operation Act 1981 supports this restriction.

Private utilities generate profits for their investor owners. Voting power in a private utility is based on the number of shares owned. Control, therefore, is plutocratic rather than democratic. The shares of the private utility are tradable on the stock exchange and can, therefore, be bought and sold by Australian and foreign investors.